

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

GREEN RIVER ELECTRIC CORPORATION:)	
(1) NOTICE THAT ON JUNE 28, 1981,)	
IT WILL CHANGE ITS TARIFF RATES FOR)	
ELECTRIC SERVICE (2) APPLICATION)	CASE NO. 8252
FOR AN ORDER CHANGING ITS RATES FOR)	
ELECTRIC SERVICE TO NATIONAL)	
SOUTHWIRE ALUMINUM COMPANY)	

O R D E R

PROCEDURAL BACKGROUND

On November 30, 1981, the Public Service Commission issued an Order granting Green River Electric Corporation ("Green River") increased annual operating revenue of \$244,589 to be recovered entirely from Green River's rural system customers. On December 21, 1981, Green River filed an application for rehearing on the grounds that the revenue granted by the Commission did not provide adequate working capital or reserve funds and that by not increasing the rate to National Southwire Aluminum ("NSA") the Commission had imposed a discriminatory rate on Green River's rural system customers. On January 5, 1982, the Commission granted Green River's request for rehearing and scheduled the matter for hearing January 26, 1982.

On January 25, 1982, NSA, which had previously been allowed to intervene in this proceeding, filed a response to

Green River's application for rehearing in which it enumerated its objections to the application.

COMMENTARY

The history of this proceeding appears in the Commission's Order of November 30, 1981. Green River is a consumer-owned electric cooperative which distributes and sells electric energy to approximately 21,600 member-consumers in nine western Kentucky counties. The test period for purposes of this determination remains the 12 months ended December 31, 1980.

REVENUE REQUIREMENTS

In its petition for rehearing and in its oral arguments, Green River reiterated its positions concerning the margins and working capital provided by the increase in revenue granted in the Commission's Order of November 30, 1981. The Commission will respond to these issues as follows:

Working Capital

Green River maintained that the margins of \$1,347,956 granted by the Commission were insufficient to allow the accumulation of permanent working capital, and that it had demonstrated its need for the requested level of working capital and reserve funds. The Commission is of the opinion that Green River's position is only a restatement of the arguments presented in its original application, which were addressed by the Commission in its Order of November 30, 1981. Green River has failed to present any new evidence in support of its arguments and therefore the Commission will affirm its original position on this issue.

Times Interest Earned Ratio

Green River contended that it was unable to determine how the Times Interest Earned Ratio ("TIER") was set at 2.25. In recent years the Commission has consistently allowed TIER's in a range of from 2.0 to 2.25 as compensation for the business and financial risks faced by cooperatives and to allow cooperatives to meet the minimum TIER requirements of their lenders. The Commission's Order of November 30, 1981, addressed this issue in detail, and we hereby affirm the sufficiency of 2.25 as the appropriate TIER in this instance.

Obsolescence of Rates

In its petition for rehearing, Green River argued that the rates granted in the Commission's Order of November 30, 1981, would be inadequate prospectively because of certain adjustments the Commission had either made or disallowed in determining Green River's revenue requirements. Green River's arguments at the rehearing centered on a wage increase scheduled to go into effect January 1, 1982, and the interest expense on loan funds to be drawn down during the first year subsequent to the issuance of the Commission's rate Order. Green River did not propose an adjustment to reflect the January 1982 wage increase. Nor did it propose any adjustment for revenues and expenses to be generated by the debt capital drawn down subsequent to the test year. In the absence of these adjustments, the Commission concludes that there is no justification for including the interest cost on debt to be drawn down substantially beyond the test year.

Expense Adjustments

In its rate Order of November 30, 1981, the Commission did not accept Green River's proposed adjustment to eliminate interest on short-term debt, thereby including it as an expense for rate-making purposes. In its application for rehearing Green River argued that the expense was understated due to the increase in interest rates on short-term borrowings since the test year. While interest rates have increased, interest expense is a function of principal as well as interest rates, and Green River's short-term interest expense has not increased since the test year. Green River proposed no adjustment to increase short-term interest expense, and there is not sufficient evidence of record to support such an adjustment.

The Commission did not accept Green River's proposed adjustment to exclude capital credit assignments from associated organizations as an item of income. In its petition for rehearing Green River objected on the ground that cash retirements of these credits would not occur for several years. The Commission is aware of this, but we are not convinced that these retirements cannot be expected at some point in the future. Considering these factors, the Commission finds no compelling reason to alter or modify its position on this adjustment.

THE RATE TO NSA

On the issue of the rate to NSA, Green River presented extensive oral argument in which it maintained that the rate

should be increased by 0.05 mills per kilowatt hour as proposed in its original application. NSA presented oral argument opposing the increase.

Green River argued that the Commission's decision not to increase the NSA rate was inconsistent with its September 11, 1981, Order in the Henderson-Union Rural Electric Cooperative Corporation ("Henderson-Union") rate case, Case No. 8184, in which the Commission increased the rate to Anaconda Aluminum Company ("Anaconda") by 0.02 mills per kilowatt hour. Anaconda did not intervene in that case nor provide information in opposition to the increase. The Commission is of the opinion that the circumstances of Green River's service to NSA are substantially similar to the circumstances of Henderson-Union's service to Anaconda. Therefore, the Commission has concluded that the "addor" for service to NSA should be comparable to, although not necessarily identical to, the adder for service to Anaconda. The adder for service to NSA is .05 mills and the adder for service to Anaconda is .10 mills.

Green River argued that the adder to NSA had not been increased since 1975 while the costs of serving NSA have increased substantially. The regulatory assessment and association dues attributable to sales to NSA have increased from \$22,000 in 1975 to \$79,000 in the test year. In addition, the size of NSA's load contributes to Green River's coverage under the National Energy Conservation Policy Act of 1978 and the Public Utility Regulatory

Policies Act of 1978. Green River has experienced some legal and administrative expenses as a consequence of being covered by these acts.

Green River argued that the only finding of fact with respect to the NSA rate in the Commission's Order of November 30, 1981, was that Green River had not provided any computations showing the level of expenses, other than regulatory assessment and trade association dues, incurred in providing service to NSA. Green River contended that putting an exact dollar amount on the cost of serving NSA was not necessary to support its requested increase, as rates do not have to be based on cost of service. Green River further argued that NSA as a member of Green River should share in paying the costs of operating Green River whether or not those costs would continue if NSA were no longer a member of Green River. The Commission agrees with Green River that rates do not have to be based strictly on cost of service and that NSA's rate should include some contribution to Green River's overhead. Since 1975 the amount of revenue retained by Green River from the NSA rate that is available to contribute to Green River's overhead has decreased by \$56,283 while Green River's operating expenses have increased.

NSA contended that Green River had not pointed out any material facts clearly overlooked by the Commission nor presented any arguments that were not previously made in its application or its brief.

In its Order of November 30, 1981, the Commission did not give full consideration to the similar situation of Henderson-Union and Anaconda. The rehearing has allowed the Commission to further consider Green River's expenses associated with serving NSA and NSA's contribution to Green River's overhead. The Commission, having fully considered all of the evidence of record, is of the opinion that the rate to NSA should be increased by .03 mills.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

(1) With regard to the issues concerning working capital, TIER, obsolescence of rates, and expense adjustments, Green River has not presented any evidence or arguments not previously considered by the Commission.

(2) Green River has justified the necessity of an adder in its rates to NSA in excess of the current .05 mills per KWH and concludes that the adder should be increased by .03 mills to .08 mills per KWH.

IT IS THEREFORE ORDERED that the schedule of rates approved by the Commission's Order of November 30, 1981, be and it hereby is affirmed except for the rate to NSA.

IT IS FURTHER ORDERED that the rates in Appendix A, attached hereto and made a part hereof, are approved for service rendered by Green River on and after the date of this Order.

Done at Frankfort, Kentucky, this 1st day of June, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vob
Chairman

Catherine Sandall
Vice Chairman

Jim Carigan
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8252 DATED JUNE 1, 1982

The following rates and charges are prescribed for the customers in the area served by Green River Electric Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of this Commission prior to the date of this Order.

RATES TO LARGE INDUSTRIAL CONSUMERS*
SERVED UNDER SPECIAL CONTRACTS

BASE MONTHLY DELIVERY POINT RATE

National-Southwire Aluminum, Co.

Demand charge per KW of billing demand of	\$ 6.25
Plus an energy charge per KWH consumed of	18.221 mills

*The monthly kilowatt hour usage shall be subject to plus or minus an adjustment per KWH determined in accordance with the "Fuel Adjustment Clause."